Deposit and Loan Banking

By Allan Callahan

Editor's Note

This is the second of a three-part article on the American banking system. Part III will appear in the next issue.

PART OF THE WINDFALL which has befallen our more modern usurers has been due to circumstance. After the long sleep of the Dark Ages, a new high culture again began to develop in Europe with the advent of the Renaissance. Usury began to revive. The new breed of men who took most easily to it were the goldsmiths. And to know how it happened is to comprehend the fundamentals of deposit and loan banking, and the creation of money — banknotes and checks — as well.

To start with, the goldsmiths may have possessed some gold of their own, which needed protecting, but they especially had to be able to protect any gold left with them by its owners with the object of making it into various kinds of jewelry and other objects of art. This took strong vaults. Gradually, other people began to leave gold with the goldsmiths for safekeeping. These owners were given receipts for their gold. Merchants and traders began to swap these "warehouse receipts" back and forth with each other, because it was easier than drawing out the gold and carrying it around.

When this started happening on a large scale, much of the gold in the goldsmiths' vaults was seldom called for, since the warehouse receipts began to be passed from hand to hand as money.

The goldsmiths soon learned that they could lend out receipts for many times more gold than they had in their vaults. The borrowers did as the depositors did—they dealt in paper. When a borrower took out a loan from a goldsmith, he usually took it in the form of warehouse receipts, and when he paid off his obligation, he may have also been able to pay it off entirely in warehouse receipts, because the amount of this paper money in circulation began to be pyramided ever higher and higher in relation to the amount of gold in the vaults. Later, the warehouse receipts branched into two other types. One was the "banknote"; the other was the "check."

Note that this set-up gave the goldsmiths a pipeline to all the real wealth of the world. While everyone else worked to produce goods and services, the goldsmith bankers got their wealth *without working.*

Gold Backing

Few people knew what was going on. They thought the goldsmiths had in their possession enough gold to make good on every note. The faintest suspicion that one of these goldsmith bankers did not have enough gold to pay off could start a "run" on his bank. Therefore, bankers began to think more and more about trying to get the protection of the law behind them.

An interesting happening along this line once took place in Amsterdam, an important center of goldsmith banking. One of these goldsmiths proposed a law making it a capital offense, punishable by hanging, to start a run on a goldsmith banker. As soon as the news came out that this particular banker had proposed such a law it immediately

caused a run on *his* bank by depositors. Since he of course could not pay off, his enraged depositors *hanged him*.

It may seem from all the foregoing that bankers are by nature mean and nefarious creatures. Naturally this is false. Look at the bankers in your neighborhood. Are they not upright men? Pillars of the community? Of course they are. It is not the bankers themselves who are evil men, it is the system under which they operate. But it does warp their outlook. There is scarcely a banker around who does not defend his system. It is his bread and butter. All bankers have a vested interest in keeping this system as it is, and they do not take kindly to anyone who proposes to alter it.

Furthermore, in all fairness to them, let it be said that most of them do not realize the harm they do to a nation. They consider themselves public benefactors. They know of no other system, or any other way of doing things. Yet on rare occasions, one of their group who *is* "in the know" will speak candidly. One such man was Sir Josiah Stamp, President of the Bank of England. In Austin, Texas, while speaking to about 150 professors from the University of Texas, he said:

> "Banking was conceived in iniquity and born in sin . . . Bankers own the earth. Take it away from them but leave them the power to create money, and, with a flick of a pen, they will create enough money to buy it back again . . . Take this great power away from them and all great fortunes like mine will disappear (he was said to be the second richest man in Great Britain) and they ought to disappear, for then this would be a better and a happier world to live in . . . But, if you want to continue to be the slaves of the bankers and pay the cost of your own slavery, then let bankers continue to create money and control credit."

The actual way we bring money into existence should be of interest to most people. When Uncle Sam needs another billion dollars:

(1) The U.S. Treasurer notifies the Federal Reserve Bank.
(2) The U.S. Treasurer tells the Bureau of Engraving and Printing to print $1 billion in U.S. bonds.
(3) The Federal Reserve Bank orders the Bureau of Engraving and Printing to print $1 billion in Federal Reserve Notes. The Fed pays the cost of the paper and ink; around $1 million.
(4) The Federal Reserve Bank swaps the Federal Reserve Notes for the U.S. bonds.

Through some seemingly mysterious hanky-panky that may not make much sense, the Federal Reserve Bank takes the bonds which it has traded for and again trades them off, this time to the Comptroller of Currency, and receives $1 billion U.S. currency. This is in accordance with the 1935 Bank Act.

Double Interest Paid

The bonds are held by the Treasury Department, ostensibly as "security," but at the same time, the Treasury pays the Fed interest on the bonds. Interest is collected a second time when the Fed lends its notes out to its member banks. The bonds were created out of nothing, so the Federal Reserve bankers are actually drawing double interest on nothing!!

Furthermore, the United States Government guarantees the value of the Federal Reserve Notes in case the Fed gets itself in a tight and cannot make good on foreign claims in gold.

When this happened in 1933, private gold coins, owned by U.S. citizens, were called in the next year and used to bail out the Federal Reserve. We were forced to exchange our gold money for banknotes to pay for blunders of the Fed. Foreigners carted off our valuable

metal and left American citizens holding paper. Nor is this all. In the words of H. S. Kenan:

> "The Federal Reserve bankers have learned an even greater swindle. They can legally hoard the $1 billion currency in their vaults and *issue* $10 billion "checkbook" currency every time they make a loan or an investment. Much more can be lent under their fractional reserve system. In simpler terms, the Federal Reserve paid $1 million, for which they received $1 billion U.S. bonds, plus $30 million interest annually on the bonds, plus $600 million interest annually on loans to customers."

Our debt system of creating money must go. Every dollar in circulation today is a dollar borrowed at interest. Yet any suggestions that we stop this interest brings forth cries of "printing press money." *All* currency has to be printed on printing presses. Bankers decry what they call "unsound money"; but unsound money to them is money that *does not pay them interest.*

Our debt structure in the United States today is so staggering that, if all debts were paid, there wouldn't be a dollar left in circulation. In fact, according to a 1968 report, *almost eight-ninths* of the debts would still remain!! We can say, then, that debts in the United States are worth more than the United States itself!!

It is one thing to criticize something and another thing to offer an improved alternative to replace it. Therefore, what can we do? What system can we use that will do away with the evils of the present and offer something better in their place?

The Way Out

End mortgage loans and promissory notes and banks will become "warehouses" for the safekeeping of money. Primarily their functions will consist in collecting and disbursing cash. Checks can still be written.

All banks will be "national," and will not require the present "charters" which regulate usurious principles. All bank directors and higher officials will become part of our Civil Service system.

Banks will operate like Post Offices, and will charge a small fee for each service rendered. In fact, in the small towns, it might be practical to combine banks with the Postal Service, because there will not be a need for so many banks. The money that formerly went into mortgages — whether through savings banks or insurance companies — would then be diverted into the equity and commodity markets.

Savings and insurance companies could still operate much as they do today except that their investments would be made by buying title to real property instead of lending money upon it. Thus earnings would come from productive enterprises rather than from the exacting of tribute.

The reason there are so many banks around today is because of the enormous debt structure which they have erected. If our national "hock shop" system is abolished their number will decline.

One may ask where all the excess employees will go who now work in these banks. Simple. They will be getting out of the usury business and into vastly expanded institutions of stock and commodity markets.

As the number of banks shrink, the number of local stock markets and general brokerage firms can increase. This can be helped by various measures. One would be to lower the minimum fee required to purchase a single share of stock. Right now it is much too high. The poor man is discriminated against while the rich man — who buys in large share lots—has a great advantage. It should be possible to buy one share of General Motors or AT&T for the price of a loaf of bread.